

26 November, 2010



Eamonn Corrigan
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By email: eamonn.corrigan@aemc.gov.au

**Victorian Employers'
Chamber of Commerce
and Industry**
ABN 37 650 959 904
486 Albert Street
East Melbourne
Victoria 3002 Australia
GPO Box 4352 Melbourne
Victoria 3001 Australia
Telephone: 03 8662 5333
Facsimile: 03 8662 5462
vecci@vecci.org.au
www.vecci.org.au

Dear Mr Corrigan,

**Re: Market Review – MCE Request for Advice on Cost Recovery for
Mandated Smart Metering Infrastructure**

VECCI wishes to raise matters relating to the AEMC's preparation of advice to the Ministerial Council on Energy (MCE) on cost recovery for mandated smart metering infrastructure.

We note this represents a late submission to the AEMC's process. However, this reflects the time it has taken for us to digest how a recent decision relating to smart metering by the Australian Energy Regulator (AER) is relevant to the AEMC's present review.

VECCI assumes that, in order to meet its obligations to MCE for this market review, the AEMC will also review the recent AER final determination¹ on Victoria's distribution networks.

This reflects the fact that the MCE requested that the AEMC Review consider the Victorian 2010 cost benefit analysis of Advanced Metering Infrastructure (AMI). The Victorian AMI analysis highlighted that its findings on forecast benefits for consumers depend on effective regulatory price setting processes. Accordingly, VECCI submits that the effectiveness of regulatory price setting is directly relevant to the present AEMC review.

We recommend that the AEMC have regard to the AER's recent final determination as well as the recently released Victorian smart metering cost-benefit analysis report.

VECCI made a number of recommendations to the AER in relation to AMI ("smart meters") as part of the AER's 2010 distribution regulatory review which we consider are pertinent to the AEMC's current Market Review.²

The recent AER 2010 determination on distribution networks followed an earlier AER determination in 2009 in relation to cost recovery for the provision of smart meters and basic (regular meter read) metrology services.³

Ballarat
305A Dana Street
Ballarat Victoria 3350
Telephone: 03 5327 7190
Facsimile: 03 5333 3074
ballarat@vecci.org.au

Bendigo
21 Short Street
Bendigo Victoria 3550
Telephone: 03 5434 1102
Facsimile: 03 5441 4865
bendigo@vecci.org.au

Geelong
20 Little Ryrrie Street
Geelong Victoria 3220
Telephone: 03 5227 7990
Facsimile: 03 5223 3958
geelong@vecci.org.au

Traralgon
Unit 2 11 Kay Street
Traralgon Victoria 3844
Telephone: 03 5173 9200
Facsimile: 03 5174 7100
traralgon@vecci.org.au

Wodonga
95 Hume Street
Wodonga Victoria 3690
Telephone: 02 6056 9198
Facsimile: 02 6056 0190
wodonga@vecci.org.au

¹ See the AER Final Distribution Determination at: <http://www.aer.gov.au/content/index.phtml/itemId/740791>

² See especially pages 8-14 in VECCI's Submission to the AER Draft Decision on Victorian Distribution Network Tariffs for 2011-15.

³ As noted in the Media Release on this Final Determination, AER Chairman Steve Edwell said: "The AER will be mindful of expected future cost savings resulting from the smart meter rollout, and other positive impacts on network service delivery. The AER will be vigilant in ensuring that the savings are passed back to customers via lower future electricity tariffs."

VECCI suggests that separation between regulation of prices for network services, on the one hand, and meter provision and standard meter data services, on the other, has resulted in AMI not being effectively regulated. If this is the case, VECCI submits the AEMC review needs to take this into account in reporting to the MCE.

Our recent submission to the AER emphasised that – in relation to smart metering – the final AER decision should ensure the effective regulation of smart metering in order to realise benefits for consumers.⁴

Unfortunately, the AER's final determination appears to have overlooked our concerns regarding the fragmented regulation of price control of smart meter enabled services and the setting of network performance incentive targets.

In particular, we draw the AEMC's attention to our arguments, and the AER's response in the final decision:

- Not to subject smart metering enable services (non-metrology) to direct control – overlooking the fact that these services are not contestable in Victoria (due to the AMI derogation) and that prices for these services were not regulated under the AER's 2009 AMI Determination; and
- Not to adjust performance targets under the Service Target Performance Incentive Scheme to ensure smart metering benefits are achieved in terms of improved identification and rectification of network outages.

These concerns are detailed further at **Appendix A**.

In summary, VECCI requests that the AEMC review the 2010 AER decision with respect to smart meters in the preparation of its advice to MCE. VECCI understands that following the expiry of the Victorian AMI derogation, smart metering in Victoria will again become subject to the national framework and hence this matter is of direct interests to our membership and the broader community.

For further information, or to discuss these issues, please contact VECCI's Senior Policy Adviser, Bridget Ryan on telephone (03) 8662 5225 or by email to bryan@vecci.org.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Wojtkiw', with a large, sweeping flourish extending to the right.

Steven Wojtkiw
Executive Manager, Policy

⁴ VECCI's recent submission is available here: <http://www.aer.gov.au/content/index.phtml/itemId/739456>

Overall comments

One aspect of the AER's final determination which is somewhat disappointing is that it does not pursue opportunities to ensure smart metering-related benefits are achieved. It therefore does not address concerns that smart metering costs will exceed benefits overall.

Smart metering regulation appears to be fragmented and there seems to be confusion over boundaries between metrology and non-metrology smart metering-enabled services. This in turn results in confusion over the boundaries and scope of regulation of smart metering services given separation between regulation of prices for network services; meter provision and standard meter data provision services.

This manifests itself in the AER Final Determination decisions:

- Not to subject smart metering enabled network services (non metrology) to direct control – overlooking the fact these services are non-contestable in Victoria; and
- Not to adjust performance targets under the Service Target Performance Incentive Scheme to ensure smart metering benefits are achieved in terms of improved identification and rectification of network outages.

The AER's 2009 AMI cost recovery FD applies only for 2010 and 2011. Accordingly, the 2011 process may offer an opportunity for further work by the AER to ensure smart metering is regulated in a coherent rather than fragmented manner.

Regulation of smart metering services

The AER's (FD) does not address a concern raised in VECCI's submission that prices charged for non-metering-related smart metering services were not subject to direct price control.⁵ VECCI's submission noted that, uniquely in Victoria, smart metering enabled services are not contestable and on this basis questioned the categorisation of these services as 'negotiated' and 'alternate' control instead of direct control services.

In response, the 2010 AER FD (p19) states that the prices of AMI services are subject to regulation under Essential Services Commission of Victoria's *Guideline 14*. The FD refers to Orders in Council made by the Victorian Governor on 25 November 2008 (see FD p 19), but does not appear to refer to the AEMC's 2009 decision to accept a derogation from Chapter Seven of the National Electricity Rules, which has the effect of removing contestability of metering services capable of being read remotely (i.e. smart meters).

It appears the FD finding in this matter results from confusion over the boundaries of services enabled by smart metering and related to this the scope of various regulatory instruments. It appears that existing arrangements for the regulation of smart metering may be fragmented rather than 'holistic'.

Meter provision and meter data services are directly subject to control under Guideline 14 (see Chapter 5 of the AER's AMI cost recovery FD 2009).

However, smart metering also delivers other services, for which charges are not directly controlled under Guideline 14; namely special meter reads, remote connection and disconnection and remote energisation and de-energisation of premises.⁶

Under the AER's 2009 smart metering FD, charges for these services would be regulated under the AER's network price regulation powers. In the 2010 FD, however, charges for non-metrology

⁵ VECCI's submissions are available on the AER page, and on the VECCI Sustainability Policy page: http://www.vecci.org.au/Advocacy_Representation/Policy_Areas_and_Expertise/Sustainability/Pages/default.aspx

⁶ Refer to Table 3 of the 2010 Victorian cost benefits overview report and specifically benefits 6 and 8.

smart metering enabled services continue to be categorised as “negotiated” distribution services.

Smart metering and Service Target Performance Incentive Scheme (STPIS)

The AER’s 2010 FD with regard to the setting of STPIS targets for the purpose of financial reward and penalties is another matter on which concerns raised by VECCI have not been addressed in the FD. This also seems to be a manifestation of confusion over the nature of smart metering services and benefits. The AER states that as a result of uncertainty over the impacts of smart metering on maximum demand, a cautious approach should be applied in setting STPIS (see FD p 143).

The AER’s decision appears to be based on a misapprehension of VECCI’s arguments on STPIS, which did not rely on any assumptions around the effects of smart metering on maximum demand. The point made by VECCI in its submission is that in material published in the AER’s 2009 smart metering FD (and also in Victorian government publications on AMI benefits earlier in 2010) a key smart metering benefit is reductions in the duration of outages via improved detection and rectification.⁷

Smart metering is expected to deliver reliability improvements even in the absence of demand responses, as a result of more efficient outage detection and rectification. Outages can be detected more quickly and repair crews can be sent direct to the location of the outage. AMI also has advantages in terms of detecting ‘nested outages’ which may otherwise only be detected after a wider outage is rectified.

⁷ See Table 3 of the 2010 Victorian cost benefits overview report and specifically benefit 19.